

(B) SUBSTITUTION OF DEBT INSTRUMENTS; REDUCTION OF OVER-COLLATERALIZATION.—Paragraph (2)(B) shall not apply to—

(i) the substitution of a debt instrument described in subsection (c)(l)(B) for another debt instrument which is a permitted asset, or

(ii) the distribution of a debt instrument contributed by the holder of the ownership interest to such holder in order to reduce over-collateralization of the FASIT, but only if a principal purpose of acquiring the debt instrument which is disposed of was not the recognition

of gain (or the reduction of a loss) as a result of an increase in the market value of the debt instrument after its acquisition by the FASIT.

(C) LIQUIDATION OF CLASS OF REGULAR INTERESTS.—

Paragraph (2)(B) shall not apply to the complete liquidation of any class of regular interests.

(4) NET INCOME.—For purposes of this subsection, net income shall be determined in accordance with section 860F(a)(3).

(D) COORDINATION WITH OTHER PROVISIONS.™

(1) **WASH SALES RULES.**—Rules similar to the rules of section 860F(d) shall apply to the ownership interest in a FASIT.

(2) **SECTION 475.**—Except as provided by the Secretary by regulations, if any security which is sold or contributed to a FASIT by the holder of the ownership interest in such FASIT was required to be marked-to-market under section 475 by such holder, section 475 shall continue to apply to such security; except that in applying section 475 while such security is held by the FASIT, the fair market value of such security for purposes of section 475 shall not be less than its value under section 860I(d).

(a) RELATED PERSON.—For purposes of this part, a person (hereinafter in this subsection referred to as the related person) is related to any person if—

1) the related persons bears a related entity to such persons specified in section 26 or section 707(b)(1), or

2) the related persons on and such persons are engaged in trades or businesses under common control (with in the meaning of subsections (a) and (b) of section 52). F or purp

oses of paragraph (1), in applying section 267(b) or 707(b)(D), 20 percent shall be substituted for 50 percent. **(h) REGULATIONS.**—The Secretary shall prescribe such regulations as may be necessary or appropriate to carry out the purposes of this part, including regulations to prevent the abuse of the purposes of this part through transactions which are not primarily related to securitization of debt instruments by a FASIT.

(b) TECHNICAL AMENDMENTS.

(1) Paragraph (2) of section 26(b) is amended by striking "and" at the end of subparagraph (M), by striking the period at the end of subparagraph (N) and inserting " and" and by adding at the end the following new subparagraph:

(O) section 860K (relating to treatment of transfers of high-yield interests to disqualified holders).